



L. JOYCE HAMPERS
COMMISSIONER

The Commonwealth of Massachusetts

Department of Revenue

Leverett Saltonstall Building,

100 Cambridge Street, Boston 02204

June 8, 1981

You inquire as to whether shares of and dividends paid by the ("Mutual Fund"), an open-end diversified investment trust, are subject to the Massachusetts personal income tax, corporate excise or local property tax.

The Mutual Fund is a corporate trust organized under an Agreement and Declaration of Trust dated December 7, 1980. Its principal office is located in Ohio. The Mutual Fund qualifies as a regulated investment company under Section 851 of the Internal Revenue Code ("Code").

The Mutual Fund consists of two series of shares, the "Short Term Government Fund" and the "Intermediate Term Government Fund", each with its own portfolio, investment objective and policies. The Trust Agreement permits the Trustees to issue an unlimited number of shares of beneficial interest of each series. Each share of each series represents an equal proportionate interest in that series with each other share and is entitled to such dividends and distributions out of the income belonging to the series as are declared by the Trustees.

Under the Short Term Government Fund dividends are declared and reinvested daily in additional shares at net asset value. Shareholders may obtain the dividends in cash at the end of each month by requesting an automatic redemption of dividend shares. Under the Intermediate Term Government Fund, dividends, which are declared daily and paid monthly and capital gain distributions when made, are paid in cash or in additional shares, at the share-

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holder's option.

Each of the series is comprised of interest bearing bonds, bills or notes issued or guaranteed as to principal and interest by the United States Government or its agencies or issued or guaranteed by federal instrumentalities (e.g. Federal National Mortgage Association). The Short Term Government Fund invests in short term obligations with a weighted average maturity of 120 days or less. The Intermediate Term Government Fund invests in obligations with a weighted average maturity of five years or less.

A corporate trust is taxed in accordance with Massachusetts General Laws Chapter 62. Chapter 62, Section 8(b) exempts from taxation a corporate trust which is a regulated investment company under Section 851 of the Code. Section 8(c) of Chapter 62 provides that dividends received from a corporate trust which is not subject to taxation, are taxable.

Chapter 63, Sections 32 and 39 provide for an excise on corporations consisting of a tax measured by property plus a tax on net income apportioned to Massachusetts. Tangible property corporations are taxed on tangible property and on apportioned net income and intangible property corporations are taxed on net worth and on apportioned net income.

For purposes of the corporate excise, 'net income' is gross income less the deductions allowable under the Code but no deduction is allowed for dividends from shares in a corporate trust engaged in business in Massachusetts nor is a deduction allowed for long-term capital gains realized and losses sustained from the disposition of intangible property occurring after January 1, 1963. (M.G.L. c. 63, ss. 30(5)(b) and 38(a)(1) and (2)).

Chapter 59, Section 5, Twenty-ninth exempts from local property taxation shares of trusts, the income of which is taxable under Chapter 62.

Based on the foregoing it is ruled that:

1. The Mutual Fund is a regulated investment company within the meaning of Massachusetts General Laws Chapter 62, Section 8(b) so long as it qualifies as a regulated investment company under Section 851 of the Code.

2. The Mutual Fund is not subject to taxation on its income under Chapter 62 while it qualifies as a regulated investment company within the meaning of Section 8(b) of Chapter 62.

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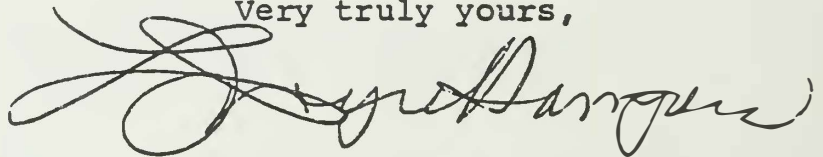
3. While the Mutual Fund is not subject to taxation by reason of the ruling in paragraph 2, individual shareholders of the Mutual Fund who are subject to Massachusetts income taxation under Chapter 62 must include dividends and capital gain distributions received from the Mutual Fund in their Massachusetts gross income.

4. If the Mutual Fund is not engaged in business in Massachusetts, corporate shareholders of the Mutual Fund who are subject to the Massachusetts corporate excise must include capital gain distributions but not dividends received from the Mutual Fund in their net income subject to apportionment. If the Mutual Fund is engaged in business in Massachusetts corporate shareholders must include dividends and capital gain distributions received from the Mutual Fund in their net income subject to apportionment.

5. Shares of the Mutual Fund are not included in the computation of the tangible property base of a tangible property corporation but are included in the computation of the net worth base of an intangible property corporation subject to taxation in Massachusetts.

6. Shares of the Mutual Fund are exempt from local property taxes in Massachusetts.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Raymond Langone", is written over the typed name of the Commissioner of Revenue.

Commissioner of Revenue

LJH:RSF:mf

LR 81-46